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19 FEB 1980

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MEMORANDUM FOR:



FROM:

DCI

SUBJECT:

I am going to take your suggestion and dictate some while I'm working on the Principia speech. Unfortunately, I didn't take your suggestion until I got onto page 2. I'll go back and try to do that later. I'm just talking it out loud and you'll have to clean it up and work on it. We'll just try this-- I'll leave the tape recorder on while I talk the thing out loud--we'll see, it may not be useful.

STEEL

CIA: World steel glut looms

WASHINGTON—World steel markets—which have been relatively steady for two years—face new trauma because of a huge capacity buildup under way in less developed countries (LDC), says the Central Intelligence Agency in a new report.

"During the next few years, the slow growth of LDC imports—now about 40 percent of the world total—will force developed-country exporters to increase sales to other developed countries in order to help improve depressed operating rates," the CIA says.

Glut or shortage? The CIA's forecast of a glut represents a sharp departure from world steel forecasts being made by American economists and steel executives who say that rising demand will put a sharp strain on steel capacity, possibly leading to shortages and rapidly rising prices.

The leading proponent of the steel shortage theory is the Rev. William T. Hogan, director of the Industrial Economics Research Institute at Fordham University. He said in a recent study:

"If U.S. steel capacity is not increased to take care of the nation's needs, steel consumers in this country will have a difficult time in procuring steel and, in times of tight supply—which are anticipated for the middle 1980s—will have to pay extremely high prices for any steel that is imported."

Asked by PURCHASING to comment on the CIA report, Father Hogan said, "It depends on what you buy in terms of a growth projection. If you think world demand for steel will be flat, then there won't be a shortage. If you think demand is going to grow at a 3-percent annual rate, as I do, then there won't be adequate capacity."

Data questioned. Father Hogan says the CIA figures for Third World countries may be high. For instance, the CIA lists Latin American steelmaking capacity at 30.5 million tons a year. But Latin American countries are producing only 24.3 million tons a year.

U.S. steel producers share Father Hogan's concern about future world steel supply. George Stinson, chairman of National Steel, told this year's American Iron and Steel Institute annual meeting: "There is at least a good possibility of a world steel shortage beginning in 1985 and growing thereafter."

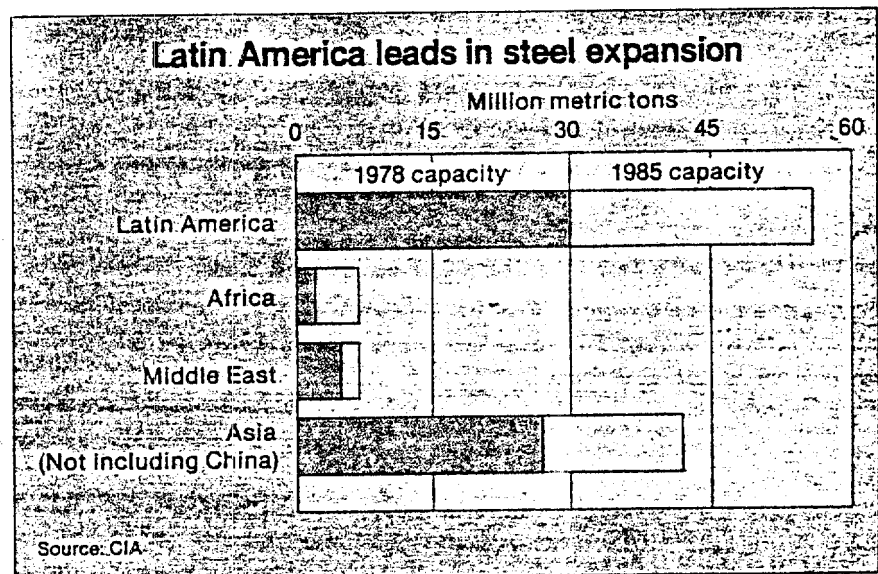
The CIA bases its forecasts on a projected buildup of steel capacity of 51 million tons, or 80 percent, in non-Communist Third World nations through 1985.

More home-grown steel. New capacity in those nations would be 115 million tons, according to the CIA's economic sleuths. LDCs should be producing 75 percent of their total steel requirements by 1985, up from 61 percent last year.

As a result, their need for steel from large exporting nations, such as Japan, Great Britain, and France, will decrease. "Less developed countries' net steel imports will grow much more slowly in the decade ending in 1985 than during the period 1966-75," says the CIA.

The CIA points out that steel executives in Japan and Europe believe chances of steel shortages in the 1980s are remote.

"Most steel executives, particularly in Japan and Europe, feel that excess capacity will persist well into the 1980s. Only a minority believe that reviving demand will place capacity under heavy pressure by 1985 with steel shortages and soaring prices the result."



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Glimmer of new hope for US hostages in Iran

America could agree to economic cooperation
and unofficial censure of Shah's 'misdeeds'

By John K. Cooley and Daniel Southerland

Staff correspondents of The Christian Science Monitor

Washington

Despite tense rhetoric from all sides, the United States sees some positive signs in the apparently hard-line conditions laid down by Iran for the release of American hostages.

In the State Department view, the tough conditions may at least leave room for negotiation. Until recently it appeared that Iran was presenting the US with an ultimatum: Agree to send back the Shah or we won't even talk with you about freeing the hostages.

There were other potentially positive signs:

- Iran has asked the United Nations Secretary-General, Kurt Waldheim, to intervene personally in the crisis and has passed its demands on to him. The US sees some hope in "internationalizing" the problem, inasmuch as a multiplicity of international contacts with the Iranian Government might lead it "to see reason."

- The State Department reports it is in direct telephone contact with the Iranian students holding the hostages and that it has relayed verbal messages through the students to the hostages from their families. Mail also is said to be going to the hostages after it is screened by their captors. This could be one indication that a long, slow process is the only prospect, but it is nonetheless viewed as a positive development.

In a meeting with foreign diplomats in Tehran Nov. 12, acting Foreign Minister Abolhassan Bani-Sadr declared that Iran had three demands: The US must recognize that the Shah is a criminal and extradite him to stand trial in Iran; acknowledge that the Shah's fortune belongs to the Iranian people; and guarantee an end to "American meddling" in Iranian domestic affairs.

Given the Shah's past friendship with the United States and the lack of any apparent legal grounds for his extradition, the US continues to refuse to return him to Iran. But once his medical treatment permits, it might encourage him to accept President Sadat's invitation to go to Egypt for convalescence. An Iranian diplomat had earlier indicated that if

the Shah left the US, it would have a positive effect on the situation.

The US is not likely to agree to the humiliation involved in recognizing that the Shah is a "criminal" and that his fortune belongs to the Iranian people. But there is no reason why some US officials, at a level perhaps lower than the President or the Secretary of State, could not acknowledge what is already widely accepted—that the Shah did commit misdeeds.

The US also could eventually agree to some form of economic cooperation—while not committing itself to the precedent of agreeing to "compensation"—under a new relationship with Iran. This might help overcome some of the frustration and resentment many Iranians feel toward the United States.

The least difficult of Iran's conditions to meet would be that of guaranteeing an end to "meddling" in the country's internal affairs. The Central Intelligence Agency's role in placing the Shah back in power in the 1950s is well known to many Iranians. But the US now appears to be in a position to affirm that this sort of intervention is neither in progress nor contemplated.

US hope for a diplomatic solution, in view of international pressures on Tehran, is supported by several American and Iranian experts. Said Prof. Richard Cottam, a University of Pittsburgh scholar of Iranian affairs: "The Iranians should realize that interventionists and pro-Shah elements are not making US policy."

Iranian suspicions, and a genuine, top-level Iranian belief in a US plot to restore the Shah, said Professor Cottam at a recent academic conference in Salt Lake City, are "understandable." So, he added, is the belief

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of many Iranians in an Arab coalition being built against them, led by their western neighbor, Iraq.

Prof. Thomas Ricks, a Georgetown University Iranian expert personally acquainted with Ayatollah Ruhollah Khomeini and his followers, predicts the transfer of the Shah to Egypt, Mexico, or to some other destination would lead to the release of the hostages because it would help to relieve these Iranian suspicions.

Meanwhile, Iranian concern over neighboring Iraq has grown, say returning travelers, ever since Iraq denounced its 1975 peace accord with Iran two weeks ago. Iraqi troops have moved into forward border positions along the entire frontier, and there were reports of exchanges of fire across the frontier. There also were signs of increased Iraqi support to Iranian Kurds rebelling against Ayatollah Khomeini. Iraq has stepped up naval patrols on the Shatt al-Arab waterway, dividing their frontier near the gulf oil ports.

US and Arab analysts are watching the attitude of Iran's naval commander, Adm. Ahmed Madani, an anti-Shah leader whom the Ayatollah earlier dismissed as defense minister. Since naval maneuvers in September, Admiral Madani has deployed ships and about three battalions of US-equipped marines along Iran's gulf oil ports in a manner that, one Arab analyst said, "suggested more that he was expecting a confrontation with Tehran than with Iraq or some outside power."

Ali Akhbar Tabatabai, a former Iranian diplomat who speaks here for an anti-Khomeini group known as the Iran Freedom Foundation, called on Americans in the meantime to be "careful about their anti-Iranian demonstrations."